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BEFORE THE ARIZONA CORPORATI

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AZ CORP COMMISSION
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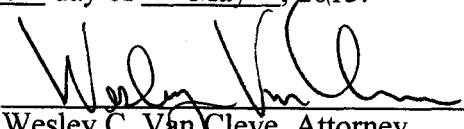
IN THE MATTER OF THE APPLICATION OF
SAHUARITA WATER COMPANY, L.L.C.,
FOR A RATE INCREASE.

DOCKET NO. W-03718A-09-0359

**NOTICE OF FILING
SETTLEMENT AGREEMENT
RE: HOOK-UP FEES**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission"), on behalf of the Parties to the Settlement Agreement hereby files a fully executed copy of the Agreement that settles the issue regarding Sahuarita Water Company L.L.C.'s Hook-Up Fees.

RESPECTFULLY SUBMITTED this 29th day of May, 2013.


Wesley C. Van Cleve, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies
of the foregoing filed this
29th day of May, 2013, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

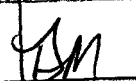
Copy of the foregoing mailed this
29th day of May, 2013, to:

Lawrence V. Robertson, Jr.
Attorney at Law
P.O. Box 1448
Tubac, Arizona 85646

Arizona Corporation Commission
DOCKETED

MAY 29 2013

DOCKETED BY





SETTLEMENT AGREEMENT

The purpose of this Settlement Agreement ("Agreement") is to settle the issue regarding modification of Sahuarita Water Company L.L.C.'s ("SWC") Hook Up Fees ("HUF") originally established in Decision No. 62032, Docket No. W-02808A-99-0143, Sale of assets & transfer of CC&N from Interchange Water Company, Inc. to Rancho Sahuarita Water Company L.L.C. (the "Docket" or "Rate Case"). This Agreement is entered into by SWC and Arizona Corporation Commission Utilities Division ("Staff"), the only two parties to this Docket (a "Party", or collectively, the "Parties").

Terms And Conditions

In consideration of the promises and agreements contained herein, the Parties agree that each of the following numbered sections and subsections comprise the Parties' Agreement.

1. Recitals

- 1.1 On October 31, 2012, SWC filed with the Commission a Motion Pursuant to A.R.S. §40-252 for an Order Altering and Amending Decision No. 62032 (and, if Necessary, Decision No. 72177) in Docket No. W-02808A-99-0143 and W-03718A-99-0143.
- 1.2 On February 11, 2013, at an Open Meeting, The Arizona Corporation Commission ("Commission") voted pursuant to A.R.S. §40-252 to reopen Decision No. 72177 and Decision No. 62032 in order to consider the request of SWC to modify its HUF.
- 1.3 The Commission directed the Hearing Division to conduct a Procedural Conference in order to discuss procedures that would allow for the request to be processed and brought for a Commission decision.
- 1.4 No other entity filed to intervene.
- 1.5 A Procedural Order was issued on March 13, 2013, scheduling a Procedural Conference on March 26, 2013 for the purpose of discussing a procedure for considering SWC's request to modify its HUF.
- 1.6 On March 20, 2013, in a joint telephonic conference with the Administrative Law Judge ("ALJ"), counsel for the Company and Staff requested that the March 26, 2013, Procedural Conference be continued approximately 60 days in order to allow the parties to engage in settlement discussion.
- 1.7 This Agreement is a result of the Parties' good faith efforts to settle the issue regarding the modification of SWC's HUF.

- 1.8 The Parties agree and represent on their belief that the terms and conditions of this Agreement will serve the public interest by providing a just and reasonable resolution of SWC's request to modify its HUF. The adoption of this Agreement will further serve the public interest by allowing all parties to obtain greater certainty and avoid the expense, delay, and risk associated with continued protracted litigation.
- 1.9 As further reflected in this Agreement, the Parties acknowledge that under Arizona law the Commission has plenary authority over the determination of fair value and setting of rates.
2. **Resolution of HUF Modification Issue**
 - 2.1 In order to reach a full settlement, the Parties have agreed that SWC's HUF be approved as set forth in the tariff attached as Exhibit A to this Agreement.
 - 2.2 In the event that at some future date Staff determines the continued use of the HUF would have a negative effect on SWC's capital structure Staff may seek to modify or eliminate the HUF in SWC's next rate case.
3. **Commission Approval**
 - 3.1 The Parties acknowledge and agree that the determination of SWC's fair value rate base, and establishment of just and reasonable rates thereon, requires Commission approval, and that the Commission will independently consider and evaluate the terms of this Agreement. With respect to approval of this Agreement, the Parties agree as follows:
 - (a) To support and defend the Agreement by filing testimony as may be required by the Administrative Law Judge, appearing at any and all hearings, open meetings or other proceedings in the Docket related to the Agreement, and taking any and all other steps reasonably necessary to obtain Commission adoption of the material terms of the Agreement, including, but not limited to, eliciting support from its constituents.
 - (b) To waive all rights to appeal a Commission decision, provided the Commission adopts the material terms of this Agreement.
 - (c) A final, non-appealable Commission order adopting the material terms of this Agreement shall constitute Commission approval of the Agreement for purposes of the Agreement.
 - (d) Consistent with any order of the Commission, but not less than fifteen days after the Commission issues an order in this matter, SWC shall file a compliance tariff for Staff review and approval. Such compliance tariffs, however, will become effective upon the effective date of the Commission's Order in this proceeding.
 - 3.2 The Parties further agree that in the event the Commission fails to issue an order adopting all material terms of this Agreement or modifies or adds material terms to this Agreement, any or all of the Parties may withdraw from this Agreement, and such Party

or Parties may pursue their respective remedies at law without prejudice. For the purposes of this Agreement, whether a term is material shall be left to the discretion of the Party choosing to withdraw from the Agreement. The Parties agree that this Agreement will not have any binding force or effect until its material terms are adopted as an order of the Commission.

4. Miscellaneous Provisions

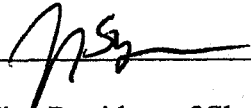
4.1 With respect to the Parties' Agreement as set forth herein, the Parties further agree to the following general terms and conditions of their agreement to settle their dispute(s) regarding the Company's request to modify its HUF:

- (a) That each person whose signature appears below is fully authorized and empowered to execute this Agreement.
- (b) That each Party is represented by competent legal counsel and that they understand all of the terms of this Agreement, that it has had an opportunity to participate in the drafting of this Agreement and fully review this Agreement with its counsel before signing, and that it executes this Agreement with full knowledge of the terms of the Agreement.
- (c) Nothing in this Agreement shall be construed as an admission by any of the Parties that any of the positions taken by any Party in this proceeding is unreasonable or unlawful. In addition, acceptance of this Agreement by any of the Parties is without prejudice to any position taken by any party in these proceedings.
- (d) This Agreement represents the Parties' mutual desire to compromise and settle in good faith all disputed issues regarding SWC's request to modify its HUF in a manner consistent with the public interest. The terms and provisions of this Agreement apply solely to and are binding only in the context of the circumstances and those purposes. None of the positions taken in this Agreement by any of the Parties may be referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except in furtherance of this Agreement.
- (e) All negotiations relating to this Agreement are privileged and confidential. No Party is bound by any position asserted in negotiations, except as expressly stated in this Agreement. The Parties expressly agree that evidence of conduct or statements made in the course of negotiating this Agreement shall not be offered and are not admissible before this Commission, any other regulatory agency, or any court.
- (f) Each of the terms and conditions of the Agreement is in consideration and support of all other terms. Accordingly, the terms are not severable except upon express consent of the Parties.

- (g) This Agreement may be executed in counterparts. This Agreement also may be executed electronically or by facsimile.

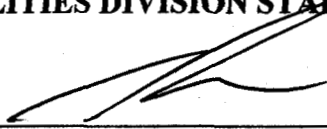
Executed this 28th day of May, 2013.

SAHUARITA WATER COMPANY, L.L.C.

By:  _____

Its: Vice-President of Sharpe & Associates, Inc.,
Manager of Sahuarita Water Company, LLC

**ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION STAFF***

By:  _____

Its: Director _____

EXHIBIT A

TARIFF SCHEDULE

UTILITY: Sahuarita Water Company, L.L.C.
DOCKET NO. W-03718A-09-0359

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE (WATER)

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to Sahuarita Water Company, L.L.C. ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means Sahuarita Water Company, L.L.C.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of water facilities necessary to the Company to serve new service connections within a development, or installs such water facilities necessary to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial or other uses, regardless of meter size.

III. Off-Site Water Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE HOOK-UP FEE TABLE		
Meter Size	Size Factor	Total Fee
5/8" x 3/4 "	1	\$1,000
3/4"	1.5	\$1,500
1"	2.5	\$2,500
1-1/2 "	5	\$5,000
2"	8	\$8,000
3"	16	\$16,000
4"	25	\$25,000
6" or larger	50	\$50,000

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs.

(C) Time of Payment:

- 1) For those requiring a Main Extension Agreement: In the event that the Applicant is required to enter into a Main Extension Agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements or construct such improvements in order to extend service in accordance with R-14-2-406(B), payment of the hook-up fees required hereunder shall be made by the Applicant no later than 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).
- 2) For those connecting to an existing main: In the event that the Applicant is not required to enter into a Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant may agree to construction of off-site facilities necessary to serve a particular development by Applicant, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or to actually provide water service to any Applicant in the event that the Applicant has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and water service requirements. In the alternative, the Applicant shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as hook-up fees pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction. The Company shall record amounts collected under the tariff as CIAC; however, such amounts shall not be deducted from rate base until such amounts have been expended for plant.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing bank account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the bank account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the Applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2015, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.